HOW PARTICIPATION IN THE VARIABLE TRUST FUND AFFECTS YOUR WRS BENEFITS

Department of Employee Trust Funds
P. O. Box 7931
Madison, WI 53707-7931

ET-4930 (REV 04/2004)

TABLE OF CONTENTS

HISTORY

Fixed and Variable Trust Funds for each of the state retirement systems (the former State Teachers Retirement System, Milwaukee Teachers Retirement Fund, and Wisconsin Retirement Fund) were established by Chapters 381 and 423, Laws of 1957, and effective January 1, 1958. Effective January 1, 1982, these retirement systems were legally merged into one retirement system, the Wisconsin Retirement System (WRS), which is administered by the Department of Employee Trust Funds (ETF).

The Variable Trust Fund was created to establish a well balanced, broadly diversified investment program which would provide retirement benefits that would fluctuate as the value and earnings of investments vary, in proportion to changes in the general economy. When the Variable Trust Fund was established it was anticipated that greater utilization of equity investments would result in the accumulation of larger deposit reserves during a participant's working years, tend to preserve the purchasing power of the deposits made and benefits provided, and provide better protection during periods of inflation. However, those who have elected this option risk the possibility that unfavorable stock market performance could result in losses.

At the time the Variable Trust Fund was established, the Fixed Trust Fund was invested entirely in bonds and other fixed income securities. Today, the investment of the Fixed Trust Fund has been liberalized and the current policy is to allow up to 65% of assets to be invested in common stocks.

Originally, all contributions were deposited into the Fixed Trust Fund. From 1957 to 1980 participants could elect to join the Variable Trust Fund. At that time, an election to join the variable program was irrevocable. Once the election to join the variable program was effective, 50% of employee contributions and an equal dollar amount of employer contributions were deposited into the Variable Trust Fund; the remaining 50% was deposited into the Fixed Trust Fund.

A statutory change closed the Variable Trust Fund to further enrollments effective April 29, 1980, and allowed existing variable participants to cancel their variable participation. Another statutory change legislated by 1999 Wisconsin Act 11 re-opened the Variable Trust Fund to new enrollments for WRS participants who are active participants on or after January 1, 2001. For active participating employees who elect to join the Variable Trust Fund, 50% of all future contributions (employee, employer and additional) will be deposited in the Variable Trust Fund. The election applies to future contributions only; participants cannot transfer contribution balances into the Variable Trust Fund. Active WRS participants electing to join the Variable Trust Fund must file an *Election to Participate in the Variable Trust Fund* form (ET-2356) with the Department.

Participants who elect to join the Variable Trust Fund remain in that program unless they elect to cancel their participation by filing an *Election to Cancel Variable Participation* form (ET-2313) with the Department. Once a person cancels participation in the Variable Trust, there is no opportunity to rejoin unless you close your WRS account (ending your WRS participation and withdrawing your account balance), then later return to work for a WRS participating employer. By becoming a new participating employee, you would have a new variable election option.

HOW WRS RETIREMENT ANNUITIES ARE CALCULATED

There are two methods of calculating retirement benefits, the formula and money purchase methods. By law the WRS always pays the higher of the formula or money purchase benefit calculations.

Formula Benefits

A formula retirement benefit is calculated by multiplying your final average monthly earnings, the relevant formula factor(s) for your employment category(ies) in pre-2000 and post-1999 years, years of creditable service, and any applicable age reduction factor if retiring below normal retirement age. This produces your monthly formula annuity option 'For Annuitant's Life Only.'

1999 Wisconsin Act 11 increased the formula multipliers for creditable service performed before 2000. The formula multiplier remains at the pre-Act 11 levels for WRS creditable service performed after 1999. To be eligible for this improved formula factor, a participant must be actively employed under the WRS after 1999.

	Pre-2000 Service Factor	Post-1999 Service Factor
General/Teachers/Educational Support Staff	1.765%	1.6%
Executive/Elected Official/ Protective with Social Security	2.165%	2.0%
Protective without Social Security	2.665%	2.5%

To calculate a formula retirement benefit for participants who have creditable service in both categories (pre-2000 and post-1999), the Department will determine the amount of creditable service in each category and multiply this by the appropriate formula factor and the final average earnings. The pre-2000 and post-1999 formula sums will then be added together to determine the total monthly formula annuity for the option 'For Annuitant's Life Only.'

Example: Participant is 65 years old and has a final average earnings total of $2,150. Participant has 32 years of creditable service in the general category: 30 years of service were earned prior to 2000 (pre-2000) and 2 were earned after 1999 (post-1999). There is no applicable age reduction factor for this participant. This participant's formula annuity is calculated as follows:

Final Average Earnings	Formula Factor		Years of Service		Formula Annuity
$2,150	.01765 (pre-2000)	X	30	=	$1,138.42
$2,150	.016 (post-1999)	X	2	=	+$ 68.80
			Total Formula Annuity		$1,207.22

Money Purchase Benefit

A money purchase retirement benefit is calculated by multiplying the dollar amount in your account (the "Money Purchase Balance" on your Annual *Statement of Benefits*) times a money purchase factor based on your age at the time your benefit begins. This produces your monthly money purchase annuity option 'For Annuitant's Life Only.

HOW VARIABLE TRUST FUND PARTICIPATION AFFECTS YOUR RETIREMENT ANNUITY

The calculation of how participation in the variable program affects your retirement benefit is different for formula and money purchase benefits. If your benefit is higher under the money purchase calculation method, the fixed and variable portions of your account are each multiplied by the money purchase factor for your age. This produces the fixed and variable portions of your 'For Annuitant's Life Only' annuity. The relative amounts of your fixed and variable annuities will be in direct proportion to the amounts in your fixed and variable accounts. A brochure entitled *Calculating Your Retirement Benefits* (ET-4107), provides additional information on how annuities are calculated.

If your benefit is higher under the formula calculation method a "variable adjustment" is made to your annuity, based on the variable excess (or variable deficiency) in your account at the time your retirement benefit begins. This variable excess (or deficiency) amount is based on a comparison of the actual balance of your account, vs. what your account balance would be if your contributions had been invested only in the Fixed Trust Fund. The actual dollar amount of the variable excess (or deficiency) in your account will change each year, based on the investment experience of the Fixed and Variable Trust Funds. Your variable excess/deficiency amount is shown on your annual *Statement of Benefits*.

The variable adjustment to your formula annuity is calculated by multiplying the variable excess (or deficiency) amount in your account, which includes matching amounts to reflect employee and employer contributions, times the money purchase factor based on your age at the time your benefit begins. This produces a variable adjustment (increase or decrease) to your formula annuity.

The relative amounts of the fixed and variable portions of your monthly formula annuity will normally NOT be proportional to the amounts in your fixed and variable accounts. The variable portion of your formula annuity is calculated the same as for a money purchase annuity. The variable portion of your account is multiplied times the money purchase factor for your age at the time your benefit begins, which produces the variable portion of your formula annuity.

When the formula calculation provides a larger monthly benefit than the money in the account (money purchase calculation), monies in addition to the amount in your account are necessary to fund your formula retirement benefit. These funds are transferred from the Employer Reserve and are all allocated to the fixed portion of your annuity. Consequently, the fixed portion of your formula annuity will generally be somewhat higher than the variable portion, even though your variable account may have been larger than your fixed account. The relative amounts of the fixed vs. variable portions of annuities will vary greatly between individual accounts, based on the fixed and variable investment experience during the years that employees participate in the WRS.

HOW 1999 WISCONSIN ACT 11 AFFECTS THE VARIABLE TRUST FUND

1999 Wisconsin Act 11 affects current and future Variable Trust Fund participants. It is important to note that the information described here applies to variable accounts as they affect formula benefits only. Except for investment returns, these changes do not affect the money purchase calculation.

1. Act 11 provides for a one-time $4 billion transfer from the Transaction Amortization Account (TAA) to the three reserves (Annuity, Employer and Employee Reserves) of the Trust Fund. While this transfer did not affect the variable interest rate for 1999, it created a **higher effective rate for the Fixed Fund for the year 1999**. The higher fixed effective rate resulting from the TAA transfer resulted in a smaller difference between the investment returns of the Variable and Fixed Funds. The smaller difference in investment returns is likely to generate **lower increases in existing variable participants' variable excess balances** than they would have experienced without the special one-time TAA transfer. The lower a participant's variable excess balance, the lower the amount that will be added to that participant's monthly formula retirement benefit if he or she retires with a formula annuity.

2. Act 11 also distributes the remaining TAA balance over a five-year period (2000 - 2004) and replaces it with a Market Recognition Account (MRA). Twenty percent of the TAA balance as valued at the end of 1999 (after the $4 billion transfer) will be paid out each year over a five-year period, and investment gains/losses after 1999 will be credited to the new MRA. The phase-out of the TAA over the five-year period will result in higher fixed effective rate interest credited to active and eligible inactive members, and higher fixed adjustments for annuitants **for the years 2000 to 2004** (e.g., higher than these rates would have been if the TAA were not being eliminated and the MRA established). Again, higher fixed effective rates resulting from the TAA phase-out will result in a smaller difference between the Variable and Fixed Funds. The smaller difference in funds is likely to generate **lower increases in existing variable participants' variable excess balances** than these participants would have experienced without the elimination of the TAA.

Sample Calculation

The following example explains how money purchase and formula retirement annuities are calculated for a Variable Fund participant.

Example: Participant is 62 years old, has 32 years of creditable service in the general category (25 pre-2000 years and 7 post-1999 years), a final average monthly earnings of $2,178, a fixed Money Purchase balance of $45,500 ($22,750 from employee contributions plus a matching amount of employer contributions), and a variable Money Purchase balance of $65,000 ($32,500 from employee contributions plus a matching amount of employer contributions). The variable excess amount is $19,500. The money purchase factor for age 62 is .00659. (See page 10 for money purchase factors for various ages.)

Money purchase annuity calculation:

Fixed Account	**Variable Account**
$ 45,500	$ 65,000
x .00659	x .00659
$299.85 (fixed annuity)	$428.35 (variable annuity)

$299.85 + $428.35 = $728.20 'For Annuitant's Life Only' money purchase annuity

Formula annuity calculation:

Final Average Earnings		Formula Factor		Years of Service		Formula Annuity
$2,178	X	.016 (post-1999)	X	7	=	$ 243.94
$2,178	X	.01765 (pre-2000)	X	25	=	$ 961.04
				formula annuity	=	$1,204.98

* *There is no age reduction factor for an age-62 participant with 32 years of creditable service.*

To calculate the variable adjustment to this annuity, multiply the variable excess amount by the money purchase factor, then add it to the formula benefit:

$19,500 variable excess
x .00659
$128.51 variable adjustment to formula annuity

$1,204.98 formula annuity
+ 128.51 variable adjustment
$1,333.49 monthly adjusted formula 'For Annuitant's Life Only' annuity

The fixed and variable portions of the annuity calculation:

$65,000 (variable account balance)
x .00659 (money purchase factor)
$428.35 variable portion of annuity

$1,333.49 (total formula annuity)
\- 428.35 (variable annuity)
$ 905.14 fixed portion of annuity

The adjusted formula annuity is higher than the money purchase annuity, so the participant will receive a formula annuity. To determine the amount of money necessary to fund this annuity for the person's projected lifetime, the $1,333.49 is divided by the money purchase factor based on the participant's age:

$ 1,333.49
÷ .00659
$202,350.53 (amount needed to fund annuity for the participant's projected lifetime)

When a participant begins a retirement annuity, the monies necessary to fund the annuity are transferred to the Annuity Reserve. The total balance in this participant's account which is available to fund this annuity, including employer contributions, is $110,500 ($45,500 from the fixed account and $65,000 from the variable account). The additional amount that must be transferred from the Employer Reserve to fund the annuity is the difference between the amount needed to fund the annuity and the amount in the participant's account, including employer contributions:

$202,350.53	(total cost of annuity)
- 110,500.00	(member's money purchase balance)
$ 91,850.53	Employer Reserve monies transferred

The $45,500 from the participant's fixed account, plus the $91,850.53 from the Employer Reserve, would be transferred to the Fixed Annuity Reserve to fund the fixed portion of this annuity. The $65,000 in the participant's variable account would be transferred to the Variable Annuity Reserve to fund the variable portion of this annuity. The investment earnings from these funds would be used to provide fixed dividend increases and variable increases (or decreases) after the annuity begins.

VARIABLE TRUST FUND ADJUSTMENTS TO MONTHLY BENEFITS

When you retire, funds are transferred to the Fixed and Variable Annuity Reserves to fund your monthly annuity. The law provides that in determining the amount transferred to the annuity reserve for a new retiree, it shall be assumed that future investment earnings will be 5%. Earnings in excess of this assumed 5% rate are considered when determining post-retirement adjustments in annuities. The relatively low 5% assumed rate is designed to provide benefit adjustments after retirement to help maintain retirees' standard of living during periods of rising prices.

Each year investment results are reviewed as of December 31. In the following year, beginning with the April 1 annuity payments, the amount of monthly benefits paid to retirees is increased or decreased based on the previous year's investment results. If you begin your annuity on a date other than January 1, on April 1 of the following year your fixed adjustment will be prorated, based on the number of full months your annuity was in effect during the year in which it began.

Fixed annuity adjustments are declared whenever the investment income earned, adjusted to reflect changes in mortality experience among annuitants, is at least 2% higher than the statutory assumed 5% rate. Fixed adjustments are intended (though not guaranteed) to be permanent adjustments in the monthly fixed annuity amounts paid. The fixed annuity is absolutely guaranteed never to be less than the initial fixed monthly amount. (Exception: A participant who retires prior to age 62 can select an accelerated payment option that provides a higher amount until age 62 and a lower amount thereafter. Under accelerated options the after-age-62 annuity will be less than the before-age-62 amount, though not as a result of the adjustment process.)

Variable annuity payments are increased or decreased based on variable investment results as of December 31 each year. The variable portion of an annuity may decrease to less than the initial monthly variable amount. Variable annuity payments increase whenever the investment income, adjusted to reflect changes in the mortality experience among annuitants, is greater than the statutory 5% assumed rate. Conversely, variable payments will decrease whenever the adjustment investment income is less than 5%.

Regardless of the date you retire, the full annuitant variable rate is applied to the variable portion of your annuity on April 1 of the year following the year in which your annuity begins.

The following is an example of how variable gains or losses would affect an annuitant's monthly annuity. This example assumes that on January 1 of the first year an annuitant began receiving a monthly annuity of $1,000 per month, of which $600 is a Fixed Annuity and $400 is a Variable Annuity. **The fixed and variable adjustments used in this example are completely hypothetical, and do not represent past or projected future investment experience.** The following fixed dividends and variable gains or losses are used in the example:

	Fixed Dividend Adjustments	**Variable Adjustments**
2nd year of annuity	4.1%	7%
3rd year of annuity	5.0%	5%
4th year of annuity	3.2%	-4% (loss)

Example:	**Fixed Annuity**	**Variable Annuity**
Initial year amount	$600.00	$400.00
2nd year	x 1.041 (+4.1%)	x 1.07 (+7%)
New amounts	$624.60 (fixed annuity)	$428.00 (variable annuity)

$ 624.60
+ 428.00
$1,052.60 (new total monthly annuity)

Amount after 2nd year	$624.60	$428.00
3rd year	x 1.050 (+5.0%)	x 1.05 (+5%)
New amounts	$655.83 (fixed annuity)	$449.40 (variable annuity)

$ 655.83
+ 449.40
$1,105.23 (new total monthly annuity)

Amount after 3rd year	$655.83	$449.40
4th year	x 1.032 (+3.2%)	x .96 (-4%)
New amounts	$676.82 (fixed annuity)	$431.42 (variable annuity)

$ 676.82
+ 431.42
$1,108.24 (new total monthly annuity)

As of the fourth year after retirement, this participant's gross annuity has increased from $1,000.00 to $1,108.24 per month.

HOW TO ELECT VARIABLE TRUST FUND PARTICIPATION

As of January 1, 2001, active WRS participants may elect to join the Variable Trust Fund. In addition, active WRS participants who cancelled their Variable Trust Fund participation with an effective date of January 1, 1999 or earlier have an opportunity to re-elect to participate in the Variable Trust Funds.

To elect participation in the Variable Trust Fund a participant must file an *Election to Participate in the Variable Trust Fund* form (ET-2356) with the Department of Employee Trust Funds. A copy of this form is included at the back of this brochure.

- Current WRS Participants

  The election to participate in the Variable Trust Fund is effective for future contributions on the January 1 of the year following receipt of the form by the Department.

- New WRS Participants

  A person becoming a new WRS participant on or after January 1, 2001 may elect immediate participation in the Variable Trust Fund, providing that ETF receives the *Election to Participate in the Variable Trust Fund* form (ET-2356) no later than 30 calendar days after the start of the employe's participating employment. *Election to Participate in the Variable Trust Fund* forms that are received by the Department later than 30 days after the start of a new employee's participating employment will be effective on the January 1 of the year following receipt of the form by ETF.

HOW TO CANCEL VARIABLE TRUST FUND PARTICIPATION

To cancel participation in the Variable Trust Fund, a participant must file an *Election to Cancel Variable Participation* form (ET-2313). Once the cancellation form has been received by the Department of Employee Trust Funds, it can only be rescinded if the Department receives your written request to rescind your cancellation by December 31 of the year in which the Department received your variable cancellation (when it would otherwise become effective). Once a variable cancellation becomes effective, it can no longer be rescinded. The variable cancellation becomes effective on the first of the year after it is received by the Department, so the variable gain or loss for the year in which the form is filed is applied to your account on December 31, after which the variable funds are transferred to your fixed account.

A record of any excess or deficiency amount is created and stored on your record, based on a comparison of the variable account at the time of transfer vs. what the account balance would have been if you had not participated in the variable program. This "variable excess" or "variable deficiency" amount is credited with fixed interest each year, and will be used to adjust any future formula annuity benefits.

The cancellation options available to non-annuitants (variable participants not receiving monthly WRS benefits) include:

- **Cancel participation in the variable annuity program for future contributions only.** Past contributions remain divided between the variable and fixed program. You may file a conditional or unconditional election any time in the future.
- **Cancel future participation in the variable program but transfer past contributions conditionally.** A *conditional* election means an election to cancel participation for all future contributions on the next January 1, but not to transfer past contributions until the January 1 after the variable accumulation equals or exceeds the amount that would have accumulated had the person been in the fixed annuity program only. You may change to an unconditional election at any time. If the condition to transfer has not been met prior to retirement, the election will apply to you as a retiree.
- **Cancel future participation in the variable annuity program and transfer past contributions unconditionally.** With an *unconditional* election, past variable contributions are transferred to the fixed annuity program effective the next January 1.

The cancellation options available to retirees (persons receiving monthly WRS benefits) include:

- **Cancel participation in the variable annuity program for future contributions only.** This option applies only to any new contributions to your WRS account; your variable annuity continues to be paid from the variable trust fund, and will continue to receive the annual variable annuity adjustments. You may file a conditional or unconditional election any time in the future.
- **Conditional Transfer.** A *conditional* election means to have the variable portion of the annuity changed to a fixed annuity if and when the variable amount equals or exceeds the amount that would have been paid had you never participated in the variable trust fund. You may file an unconditional election at any time, which would become effective on the following January 1. Any annual variable gains or losses earned prior to the January 1 on which the variable cancellation becomes effective will be applied to the variable annuity, and will be reflected beginning with each subsequent April 1 payment.
- **Unconditional Transfer.** You may elect that the variable portion of the annuity be unconditionally changed to a fixed annuity effective on the following January 1. Any variable gains or losses in the year in which the form is filed will be applied to the variable annuity, and will be reflected beginning with the subsequent April 1 payment. No future variable gains or losses will be applied to this benefit.

If you were a member of two or more of the formerly separate retirement plans (see “HISTORY” section) and participate in the variable annuity program, an election to cancel variable participation will apply to all formerly separate variable accounts, since they are now legally merged into a single account.

Any election filed by you will affect both your regular variable and additional (if applicable) variable contributions. The regular and additional variable contributions will be combined when applying the test to conditionally transfer the variable to the fixed trust fund.

The variable cancellation you file with this Department will apply to all of your variable accounts unless otherwise stated on your *Election to Cancel Variable Participation* form. The separate accounts you may hold are your own account and/or those you may own as a beneficiary or an alternate payee account established through a Qualified Domestic Relations Order (QDRO). If you want your election to apply only to specific variable accounts, you must indicate on the form to which account(s) the election should apply.

MONEY PURCHASE FACTORS

Money Purchase Value of
'For Annuitant's Life Only' Annuity

Age	Monthly Benefit Per $1 in Account	Age	Monthly Benefit Per $1 in Account
50	.00533	61	.00644
51	.00540	62	.00659
52	.00547	63	.00676
53	.00555	64	.00693
54	.00564	65	.00712
55	.00573	66	.00732
56	.00583	67	.00755
57	.00594	68	.00778
58	.00605	69	.00804
59	.00617	70	.00832
60	.00630		

Great effort has been made to ensure that the information in this circular is accurate. However, if there should be any conflict between this information and the law, the law must be followed.

The Department of Employee Trust Funds does not discriminate on the basis of disability in the provision of programs, services or employment. If you are speech, hearing or visually impaired and need assistance, call toll free 1-877-533-5020, (608) 266-3285 (local Madison) or TTY (608) 267-0676. We will try to find another way to get the information to you in a usable form.

ALWAYS INCLUDE YOUR NAME, SOCIAL SECURITY NUMBER, AND DATE OF BIRTH ON ALL CORRESPONDENCE TO THIS DEPARTMENT.

Contacting the Department of Employee Trust Funds

Self-Service Toll-Free Telephone Services

Available 24 hours a day, seven days a week. You must have a touch-tone telephone to use these systems.

SELF-SERVICE LINE: Call 1-877-383-1888 or 266-2323 (local Madison) to request forms and brochures. Wisconsin Retirement System annuitants may also change their home mailing address or tax withholding election through this self-service line.

TELEPHONE MESSAGE CENTER: Call 1-800-991-5540 or 264-6633 (local Madison) to hear detailed recorded messages covering a variety of Wisconsin Retirement System topics.

Note: *You will not be able to talk to a "live" person using these systems. To speak to a benefits specialist, call the telephone numbers listed below.*

To Visit our Internet Site

Access the Internet site at: etf.wi.gov. A tremendous amount of information is on-line regarding the Wisconsin Retirement System and other benefit programs. You may also e-mail the Department through this site.

To Call During Office Hours

Office Hours:	7:45 am to 4:30 pm, Monday through Friday (except holidays)
Toll Free:	1-877-533-5020
Madison:	(608) 266-3285 To make an appointment: (608) 266-5717 TTY (Teletypewriter for hearing & speech impaired): (608) 267-0676
Milwaukee:	To make an appointment: (414) 227-4294

To Write Us

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

To Visit Us

(An appointment is recommended)

Madison:	801 West Badger Road
Milwaukee:	819 North Sixth Street, Room 550